

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02
CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
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FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 2057

UNCLAS SECTION 1 OF 2 OTTAWA 0047

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TAGS: ECON, EFIN, EINV, CA
SUBJ: DIFFERENCES IN ECONOMIC FORECATS BY ECONOMIC
COUNCIL AND CONFERENCE BOARD

REF: (A) OTTAWA 5010; (B) OTTAWA 5039

1. SUMMARY. DIFFERENCES BETWEEN ECONOMIC COUNCIL'S
OPTIMISTIC VIEW OF ECONOMY OVER NEXT THREE YEARS AND
CONFERENCE BOARD'S GLOOMY OUTLOOK FOR 1977 DUE LARGELY TO
METHODOLOGY OF TWO FORECASTING GROUPS AND TO DISSIMILAR
BASIC ASSUMPTIONS. BOARD'S PREDICTIONS ARE SHORT-TERM,
BASED ON MOST RECENT DATA AVAILABLE, AND DO NOT TAKE
INTO ACCOUNT POSSIBLE CHANGES IN GOC ECONOMIC POLICY.
COUNCIL'S FORECASTS ARE LONG-TERM (TO 1979), USE EARLIER
1976 DATA, ARE CONSENSUS APPROACH INVOLVING DIVERSE
MEMBERS OF COUNCIL, AND DEPEND UPON WHETHER IF CERTAIN
COUNCIL RECOMMENDATIONS ARE FOLLOWED BY GOC.
END SUMMARY.

2. AS PROMISED REFTEL B, EMBASSY HEREBY SUBMITS FURTHER
COMMENTS ON RECENT ECONOMIC FORECASTS BY CONFERENCE BOARD
IN CANADA AND BY ECONOMIC COUNCIL OF CANADA. DIFFERENCE
IN TWO FORECASTS ARE ATTRIBUTED TO METHODOLOGY EMPLOYED
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BY TWO GROUPS AND BY DISSIMILAR ASSUMPTIONS USED BY
BOTH.

3. ON JANUARY 4 NATIONAL TV NEWS SHOW, ROBERT DECOTRET,
BOARD PRESIDENT, EXPLAINED THAT HIS ORGANIZATION USED
LATEST 1976 DATE AVAILABLE, AND DID NOT ATTEMPT INCLUDE ANY
CHANGES IN GOC ECONOMIC POLICY IN 1977 ("TOO COMPLICATING

AND IFFY"). BOARD'S ECONOMETRIC MODEL (AERIC) DESIGNED FOR SHORT-TERM (ONE YEAR) ECONOMIC TREND INDICATOR.

4. APPEARING ON SAME PROGRAM, GEORGE POST, ACTING COUNCIL CHAIRMAN, SAID THAT COUNCIL'S FUNCTION WAS TO ADVISE GOC ON ECONOMIC POLICY AND THEREFORE COUNCIL'S FORECASTS INCLUDE "PROPOSED OBJECTIVES" FOR ECONOMY. THUS, IF OBJECTIVE OF COUNCIL IS TO OBTAIN FULL EMPLOYMENT BY 1979, CANADIAN ECONOMY MUST HAVE "TARGET" OF 5.7 PERCENT AVERAGE ANNUAL REAL GROWTH. POST SAID COUNCIL WAS "CONFIDENT" THAT ECONOMY COULD OBTAIN THIS GROWTH LEVEL IF GOC ADOPTED STIMULATIVE MEASURES IN 1977. POST STATED THAT COUNCIL CONCENTRATED ON LONG-TERM "POTENTIAL" OF CANADIAN ECONOMY.

5. POST AND DECOTRET AGREED ON (A) CONTINUATION OF CONTROLS BY GOC THROUGH MOST OF 1977, (B) REDUCTION OF CPI GROWTH IN NEXT TWO YEARS (POST MAINTAINED CPI INCREASE COULD DROP TO 3 TO 4 PERCENT BY 1979, BUT DECOTRET DID NOT BELIEVE CPI INCREASE WOULD GO BELOW 5 PERCENT) AND (C) PROVINCIAL AND FEDERAL SPENDING DOES NOT NOW CONTRIBUTE TO INFLATIONARY PRESSURES.

6. NOT MENTIONED BY POST IN TV INTERVIEW BUT INCLUDED IN COUNCIL'S REPORT IS METHODOLOGY THAT COUNCIL USES IN ITS CANDIDE ECONOMETRIC MODEL FOR FORECASTING. FIRST OF ALL, COUNCIL SETS "TARGETS" FOR ECONOMY (E.G., UNEMPLOYMENT RATE OF 3 PERCENT FOR PRIME-AGE MALES AND 4.5 PERCENT OVERALL IN 1979). TO ACHIEVE THIS TARGET, UNCLASSIFIED

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"PERFORMANCE INDICATORS" ARE THEN CALCULATED AND MODIFIED "TO GIVE A DIRECTIONAL CHARACTER TO THE PROJECTION." THUS, PROJECTIONS THEMSELVES BECOME "ROUTE RECOMMENDED BY THE COUNCIL TO GET THE ECONOMY BACK TO 'FULL EMPLOYMENT.'" TO OBTAIN 4.5 PERCENT UNEMPLOYMENT IN 1979, THEREFORE, REAL GRWOTH IN ECONOMY MUST BE 5.7 PERCENT.

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7. TO ACHIEVE 5.7 PERCENT GROWTH IN CANADA'S ECONOMY, COUNCIL ASSUMES AVERAGE ANNUAL REAL GROWTH IN U.S. GNP OF 4.5 PERCENT FROM 1975 TO 1979, EFFECTS OF GOC ANTI-INFLATION PROGRAM TO CONTINUE THROUGH FORECAST PERIOD, IMPORT PRICE OF OIL TO GROW AT AVERAGE RATE OF 6.6 PERCENT DURING PERIOD, AND THAT "GOVERNMENT INCENTIVES WILL BE GRANTED TO SUPPORT RECOVERY IN PLANT, AND MACHINERY AND EQUIPMENT, EXPENDITURES."

8. COUNCIL'S RECOMMENDATIONS AND FORECASTS MUST BE REVIEWED AND APPROVED BY 25 MEMBERS OF COUNCIL (EXCLUDING THREE LABOR UNION MEMBERS WHO WITHDREW FROM PARTICIPATION IN 1976). THUS, COUNCIL'S RECOMMENDATIONS AND CONCLUSIONS ARE CONSENSUS APPROACH BY GROUP INCLUDING BUSINESSMEN, POLITICIANS, ACADEMICS AND PROFESSIONAL PEOPLE. CONFERENCE BOARD, IN ITS QUARTERLY FORECASTS, DOES NOT MAKE RECOMMENDATIONS BUT ONLY COMMENTS ON STATE OF ECONOMY AND TRENDS.

9. COMMENT: COMPARISON OF ECONOMIC COUNCIL'S FORECASTS WITH THOSE OF CONFERENCE BOARD, AS SOME NEWSPAPER REPORTS HAVE DONE, IS IMPOSSIBLE DUE TO DIFFERENT APPROACHES TAKEN BY EACH GROUP. COUNCIL'S "FORECASTS" ARE REALLY RECOMMENDED PROJECTIONS TO 1979 IF CANADA IS TO ACHIEVE UNCLASSIFIED

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ECONOMIC POTENTIAL, WHEREAS BOARD'S PREDICTIONS ARE BASED ON RECENT ECONOMIC TRENDS AND EXCLUDE FUNDAMENTAL CHANGES IN ENDOGENOUS AND EXOGENOUS FACTORS FOR 1977.

10. IN DISCUSSING UNDERLYING ASSUMPTIONS OF CONFERENCE BOARD'S FORECAST FOR 7.5 PERCENT INCREASE IN CPI IN 1977 WITH BOARD ECONOMISTS, EMBOFF WAS TOLD THAT THEY USED 10 PERCENT HIKE IN WORLD OIL PRICES IN 1977 (WITH CORRESPONDING BOOST OF C\$1.50 PER BARRELL DOMESTICALLY BY JULY 1). ECONOMISTS ALSO USED CANADIAN DOLLAR EXCHANGE RATE VALUE OF US\$1.00 EQUALS C\$0.97. THEY BELIEVED

CANADIAN DOLLAR WOULD HOLD AT THAT LEVEL FOR MOST
OF 1977, PERHAPS DROPPING TO C\$0.96 BEFORE ENDING
UP THE YEAR AT ABOUT C\$0.98.
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